

**AGENDA ITEM 6
MARCH 14, 2006**

ATTACHMENT A

**REQUEST FOR PROPOSAL: BOARD OF ADMINISTRATION'S
INDEPENDENT FINANCIAL STATEMENT AUDITOR**

MINIMUM QUALIFICATIONS



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FINANCE COMMITTEE, March 14, 2006
CHANGES IN MINIMUM QUALIFICATIONS – FROM 2001 TO 2006
INDEPENDENT FINANCIAL STATEMENT AUDITOR FOR CALPERS BOARD OF ADMINISTRATION

ITEM	PRIOR PROVISIONS	CURRENT PROVISIONS	COMMENTS
1	The firm must be a professional public accounting firm, organized at least on a regional basis, that provides audit and other attest services. Actuarial and management consulting services must be performed either by the firm or by a joint venture with other firms. If a joint venture is formed, the firms offering actuarial and consulting services shall meet specific minimum qualifications described later in this section.	The firm must be a professional public accounting firm that provides audit and other attest services. Actuarial services may be performed either by the firm, by a joint venture(s) with an actuarial firm(s), and/or by subcontract(s) with an actuarial firm(s). If a joint venture is formed or a subcontract(s) is(are) used to obtain the services of an actuarial firm(s), the firm(s) offering actuarial services shall meet specific minimum qualifications described later in this Attachment A. CalPERS reserves the right to approve the joint venture and subcontractor actuarial firm(s). Moreover, the actuarial firm under contract with CalPERS may not be used by the audit firm to avoid a potential conflict of interest.	1. Allows more firms to bid on the contract while obtaining actuarial expertise through a subcontract with an actuarial firm. 2. Eliminates the management consulting services by the Auditor for CalPERS per the Finance Committee Charter, Appendix A. <u>The Auditor is allowed to perform other attest work and agreed-upon-procedures per the Finance Committee Charter.</u>
2	The firm must have conducted, within the last five (5) years, at least two (2) audits of defined benefit pension plans with assets that exceeded ten billion dollars (\$10,000,000,000) at the time of the audit. This requirement may be met with two years of auditing the same defined benefit pension plan of a minimum size of \$10 billion.	The firm must have conducted, within the last five (5) years, at least two (2) audits of defined benefit pension plans with assets that exceeded six billion dollars (\$6,000,000,000) at the time of the audit. This requirement may be met with two years of auditing the same defined benefit pension plan of a minimum size of \$6 billion. Alternatively, the firm may meet this requirement by simultaneously auditing in each of two years more than one defined benefit pension plan with combined total assets exceeding \$6 billion, provided that one of the individual plans has at least \$3 billion in assets.	Changes the size of plans previously audited from \$10 to \$6 billion, and accepts auditing of more than one pension plan to total \$6 billion in order to allow more firms to bid.



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3	<p>The firm must have experience in auditing the following classes of investments, which are at least the size shown for each class:</p> <p>Equity securities, \$5 billion; Fixed income securities, \$3 billion; Real estate, \$1 billion; Alternative investments, \$1 billion, and Securities lending, \$1 billion.</p>	<p>The firm must have experience in auditing the following classes of investments, which are at least the size shown for each class:</p> <p>Equity securities, \$2.5 billion; Fixed income securities, \$1.5 billion; Real estate, \$1 billion; Alternative investments, \$1 billion, and Securities lending, \$0.5 billion.</p> <p>Experience auditing these investments may be gained at a variety of different entities, such as mutual funds, insurance companies, banks, REIT's, and investment portfolios of a company.</p>	<p>Requires bidders to have experience in auditing various classes of investments included in CalPERS asset allocation and investment policies, but changes the dollar thresholds for each class. This allows more firms to bid.</p> <p>Audit firms may have this experience through work with a variety of clients in the pension, mutual fund, insurance and other financial services industries.</p>
4	<p>The firm must have its own actuarial staff within its organization, or form a joint venture with a national actuarial firm. The actuaries (staff or joint venture) must have experience in performing actuarial work on (1) two defined benefit pension plans of at least \$10 billion in assets within the last five years, (2) actuarial work in the healthcare industry within the last five years and (3) actuarial work with a long-term care program within the last five years.</p>	<p>The firm must have its own actuarial staff within its organization, or form a joint venture(s) with and/or subcontract(s) with an actuarial firm(s). The actuaries [staff, joint venture or subcontractor(s)] must have experience in performing actuarial work on (1) two defined benefit pension plans with assets totaling at least \$10 billion within the last five years, (2) actuarial work in the healthcare industry within the last five years and (3) actuarial work with a long-term care program within the last five years.</p>	<p>Allows firms to subcontract for actuarial expertise rather than form a joint venture, if necessary.</p> <p>Defines the types of actuarial services required.</p>

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5	The firm must have its own management consulting staff within its organization, or form a joint venture with a national or regional management consulting firm. If a joint venture is formed, the management consulting firm must have experience in information systems, financial accounting systems, investment accounting systems and management accounting systems.	None	Prohibited by the Finance Committee Charter.
6	The principle actuary assigned to this audit must have at least five (5) years of experience in the defined benefit pension actuarial area and must be a fellow of the Society of Actuaries.	The principle actuary assigned to this audit must have at least five (5) years of experience in the defined benefit pension actuarial area and must be a fellow or associate of the Society of Actuaries.	Allows CPA firms to use both fellows and associates of the Society of Actuaries.
7	The firm must have an established office located within the United States.	The firm must have an established office located within the United States.	Same
8	The firm must be licensed by the State of California under the Accountancy Act, Article 4, Section 5072.	The firm must be licensed by the State of California under the Accountancy Act, Article 4, Section 5072.	Same

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9	The Principle/Partner (Engagement Partner) responsible for the CalPERS account, and the partner who signs the audit opinion, must be located in the United States and have at least ten (10) years of experience in public accounting. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by the State of California.	The Principle/Partner (Engagement Partner) responsible for the CalPERS account, who signs the audit opinion with the firm name and the partner's own name, must be located in the United States and have at least eight (8) years of experience in public accounting. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by the State of California, and a copy of the license shall be submitted to CalPERS.	Modifies the experience requirement from 10 to 8 years for the Engagement Partner.
10	The Audit Manager responsible for the CalPERS account must be located in the United States and have at least five (5) years of experience in public accounting. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by a state in the United States.	The Audit Manager responsible for the CalPERS account must be located in the United States and have at least four (4) years of experience in public accounting. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by a state in the United States, and a copy of the license shall be submitted to CalPERS.	Modifies the experience requirement from 5 to 4 years for the Audit Manager.
11	The On-Site Audit Supervisor directly overseeing the CalPERS account must be located in the United States and have at least three (3) years of professional auditing experience. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by a state in the United States.	The On-Site Audit Supervisor directly overseeing the CalPERS account must be located in the United States and have at least two (2) years of professional auditing experience. Such experience must include audits of defined benefit pension plans. This person shall be a Certified Public Accountant licensed by a state in the United States, and a copy of the license shall be submitted to CalPERS.	Modifies the experience requirement from 3 to 2 years for the On-Site Audit Supervisor.



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12	The Audit Manager and On-Site Supervisor shall be available for consultations and in-person meetings throughout the year.	The Audit Manager and On-Site Supervisor shall be available for consultations and in-person meetings throughout the year.	Same
13	The firm must not be under pending litigation by the State of California for causes stated in Section V.A.1.n, of this RFP.	The firm must not be under pending litigation by the State of California for fraud, malpractice, misrepresentation, negligence, or similar cause of action.	Same
14	None	The firm must provide a statement that there are no conflicts of interest that would prevent the firm or its staff from conducting the audit work and other work in accordance with American Institute of Certified Public Accountants Professional Standards and the CalPERS Finance Committee Charter.	Adds the provisions found in Attachment A, CalPERS' Finance Committee Charter, to the conflicts of interest list.